

CAPITAL PLANNING ADVISORY BOARD

Minutes of the 6th Meeting of the 2001 Calendar Year

October 26, 2001

The sixth meeting of the Capital Planning Advisory Board of the 2001 calendar year was held on Friday, October 26, 2001, at 10:00 AM, in Room 111 of the Capitol Annex. Representative Perry Clark, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Perry Clark, Chair; Bill Hintze, Vice Chair; Senators Virgil Moore and Albert Robinson; Susan Clary; Debra Gabbard (representing James Codell), Lou Karibo; Cicely Lambert; Glenn Mitchell; Norma Northern; Laurel True; Garlan Vanhook; and Edwin White.

Guests: Marcia Morgan, Secretary, Cabinet for Health Services, and Armond Russ, Commissioner, Department for Facilities Management.

LRC Staff: Pat Ingram, Staff Administrator; Mary Lynn Collins; Nancy Osborne; and Dawn Groves.

Chairman Clark welcomed Senator Virgil Moore who is replacing Senator Ed Worley who has resigned from the Board. He noted that Senator Moore previously served on the Board in the mid-1990's.

Mr. True's motion to approve the minutes of the October 12 meeting was seconded by Mr. Hintze and approved by voice vote.

Chairman Clark asked the Board's Staff Administrator Pat Ingram to review the four Information Items in the members' folders. Ms. Ingram said the first item was a follow-up on some questions raised during the Finance and Administration Cabinet's presentations at the last meeting concerning the financing alternatives portion of the feasibility study for a new state office building and the master plan for the use of state-owned land in Frankfort. The second Information Item was copies of newspaper articles and press releases about the Board's October 12 meeting. The third Information Item was a follow-up on the Board's recommendation in its last statewide capital improvements plan that serious consideration be given to transferring various state-owned senior citizens and child day care centers to local governments. The fourth Information Item was a summary of the Board's activities in 2000 and 2001.

Chairman Clark next introduced Marcia Morgan, Secretary of the Cabinet for Health Services (CHS), to report on developments concerning two items addressed in her

presentation to the Board in July on the Cabinet's 2002-2008 capital plan. Those items were CHS's proposed lease of space at the Veterans Affairs (VA) Medical Center in Lexington and the study of the state's Intermediate Care Facilities for the Mentally Retarded (ICF/MR).

Secretary Morgan thanked the Chairman for the opportunity to discuss the proposal to lease space at the VA Medical Center to house functions now at Eastern State Hospital, and referenced the handout that would be the basis of her presentation. Relative to the VA facility, she said that it has a declining population but the infrastructure is in very good condition. Relative to ESH, she said the campus includes a hospital with 323 licensed beds (average daily census of 128 residents), a 40-bed personal care home, and a 45-bed detoxification center. It consists of 78 acres on which there are 32 buildings containing approximately 573,000 square feet. Some of the buildings were constructed in the mid-1800s. Its current value is estimated at \$28,379,098. The facility has been operated by Bluegrass Comprehensive Care for over six years. Approximately one-half of the campus is occupied by patients and ancillary facilities; the remainder is occupied by the Office of Inspector General, the Department of Juvenile Justice, or is vacant.

Secretary Morgan said the ESH campus is in a declining state of repair and a study done by Lockett and Farley identified significant costs that would be involved in addressing the needs including various code and licensure issues. The facility currently has a licensure waiver for the use of improper locks and inadequate toilet facilities, and most buildings do not comply with Americans with Disabilities Act standards. She noted that the handout includes pictures of some of the areas needing to be addressed.

According to Secretary Morgan, CHS has been working closely with Bluegrass Comprehensive Care, the Office of the State Budget Director, and the Finance and Administration Cabinet relative to this proposal. She said leasing space from the VA would be less expensive than maintaining and renovating the current campus. A move would eliminate the need to fund maintenance and major capital construction projects totaling \$10.5 million that are identified in the 2002-2008 capital plan.

Secretary Morgan said that in addition to the economic benefits, this proposal would provide a better living environment and quality of life for the ESH patients and allow for shared services (e.g., laundry, food, janitorial/maintenance) with the VA as well as opportunities for joint programming for similar types of patients. Noting that staff would be able to focus on delivering services not maintaining infrastructure, Secretary Morgan said CHS should not be in the landlord business. She said time is of the essence since others are also interested in the VA property; however, rather than converting the space to offices, the VA would prefer to lease to CHS given its need for similar types of facilities and services.

Secretary Morgan reviewed the cost analysis for the proposal. She said the lease cost of \$2,304,239 annually (\$14.50 per square foot for 3½ buildings) compared to current annual ESH operating expenditures of \$1,978,169 (including personnel in food services,

maintenance, laundry) results in a projected annual increase of \$326,070. She said other costs would involve moving the residents and equipment (\$300,000), installing a patient monitoring system (\$200,000), and the Finance and Administration Cabinet's mothballing of the ESH campus for one year (\$575,938). This total of \$1,075,938 could be partially offset by using the \$850,000 authorized for the water line project in the 2000-02 budget. Secretary Morgan said CHS worked with the fire marshal's office to put that project on hold when relocation to the VA facility became a possibility.

Secretary Morgan next referenced the series of photographs in the handout showing the patient living area, day room, chapel, meeting space, and support service facilities on the VA campus. She noted that various issues remain to be addressed. They include preparing the final space design, securing legislative approval of the lease, communicating to staff and families the benefits of the move and logical issues, working with the Division of Real Properties to execute the lease, and working with the Department for Facilities Management to mothball the ESH campus.

In response to various questions from Mr. True about the proposed relocation, Secretary Morgan said the role and mission of ESH would not change but there might be some new programming opportunities in the areas of addiction treatment and psychiatric issues relating to senior citizens. She explained that CHS would be leasing buildings rather than a specific number of beds, but that the number of beds would be closer to the number currently being used rather than the number currently licensed. Thus far, they have focused on developing the proposal and have not spent much time on programmatic issues, but Secretary Morgan said there might be an opportunity to expand the number of personal care beds beyond the 40 currently available. In response to another question from Mr. True, Secretary Morgan said fewer than 50 ESH personnel would be displaced, and they are employees of Bluegrass Comprehensive Care, rather than state employees.

Responding to Senator Robinson's questions about giving up certification of some beds and whether that would be a gain for other parts of the state, Secretary Morgan said giving up the beds would be CHS' choice because they are not needed. She explained these beds are licensed for psychiatric use only, and there is currently not a shortage of such beds in the state.

Mr. Hintze said this appears to be a unique opportunity to access at a modest cost a top notch facility in a location to address an existing need, and that the state currently could not afford to construct such a facility. He added that while the revenue and budget situation for the next General Assembly Session is very bleak, this opportunity may not present itself again in the future. Secretary Morgan said these are very good points and that there is a great deal of enthusiasm for this proposal which would be mutually beneficial to the VA and to the state.

Chairman Clark asked Department for Facilities Management Commissioner Armond Russ to address the future of the ESH property. Commissioner Russ said some of the out buildings are in bad shape and would be demolished, while other buildings that are

historic or could still be useful would be mothballed. He said various state agencies may be interested in locating on the property; but if such a use cannot be realized, there is a process by which it could be sold by the state. Commissioner Russ said it is desirable location and disposing of the property probably would not be difficult.

Secretary Morgan next discussed the ICF/MR Facility Study. She noted that subsequent to reporting to the Board in July that budget constraints had precluded the study from being undertaken, the Cabinet had been allocated funding for this purpose from the Capital Construction and Equipment Purchase Contingency Account. Lockett and Farley, who did a previous study of the state psychiatric hospitals, was hired to undertake this study of the Oakwood, Outwood, and Hazelwood facilities for the mentally retarded.

Relative to Oakwood, Secretary Morgan noted that the six-year capital plan had identified the need for \$835,000 to renovate six cottages. These would have been cosmetic, rather than structural renovations. However, the Lockett and Farley report indicates the need for additional funding above the \$835,000 in order to address various structural and noncompliance issues. CHS will adjust its six-year plan and prepare its 2002-04 budget request based on the results of this report for all three facilities.

Secretary Morgan noted that the US Department of Justice will also be doing a compliance review at Oakwood. She said the Cabinet has been working to address a number of serious compliance issues over the past few years. She noted that the facility currently operates under one license for 400 residents, but an effort is being made to separate it into four licenses. The facility would then be known as the Communities of Oakwood. Secretary Morgan added that when the facility was first established the focus was on maintenance and safety of the residents, but now the focus is on quality of life.

In response to further questions from Mr. True about the term and cost of the VA lease, Secretary Morgan said the current proposal is for a five-year rental rate of \$14.50 per square foot but she would like to have a 20-year term because the state will be giving up its psychiatric hospital infrastructure in Lexington if ESH is relocated to the VA facilities.

In response to Senator Robinson's question, Commissioner Russ said the lease would include the standard cancellation clause that is a part of all state leases.

Mr. True made a motion that the Board endorse and recommend that the Executive and Legislative Branches approve the CHS proposal to lease space at the VA Medical Center in Lexington. The motion was seconded by Judge White. Chairman Clark suggested that this be reflected as a policy recommendation rather than included on the recommended projects list in the *2002-2008 Statewide Capital Improvements Plan*. The motion to include this policy recommendation was approved by voice vote. Secretary Morgan thanked the Board for its support.

As the next item on the agenda, Chairman Clark said Mr. Hintze would provide an update on state revenue and debt-related issues. Mr. Hintze said his presentation would be based on a handout being distributed which focused on budget adjustments in the current year (FY 2001/02). He noted that \$180 million had been cut from the FY 2000/01 enacted budget. He said the FY 2001/02 enacted budget was based on a revenue estimate of \$7.2 billion, but a June revision reduced it to \$6.9 billion, and in October the revenue estimate was reduced further to \$6.7 billion. This is the largest percentage reduction since FY 1983/84, and the largest ever dollar amount reduction.

Mr. Hintze said the October estimate also included forecasts for the upcoming biennium (2002-04) which reflected historically low levels of growth such that FY 2003/04 revenues are estimated to be approximately the same level as those on which the budget for the current year was initially based (prior to the cuts).

Mr. Hintze explained that the budget shortfall (\$533.0 million) is greater than the revenue shortfall (\$468.2 million) due to several factors. For example, the enacted budget was premised on using \$15 million in savings as a funding source, and on using surplus funds to finance necessary government expense items (e.g., dealing with natural disasters).

Mr. Hintze said the first round of FY 2001/02 General Fund budget reductions adhered to a series of "Management Principles" which exempted education (all levels), exempted Medicaid, exempted capital construction, and avoided layoffs. He said exempting education required either that other agencies absorb larger reductions or that the budget be balanced by using other methods such as one-time money. Mr. Hintze said the first round of reductions for FY 2001/02 was addressed primarily by using such one time funds. The largest source was the Budget Reserve Trust Fund (BRTF). Other sources included lapses (e.g., excess debt service), transfers from other funds (e.g., fees), management efficiencies (e.g., slowdowns relative to travel, overtime, compensatory time, and vehicle usage), and cuts to the non-exempt areas of the budgets of each branch.

Mr. Hintze said the BRTF had been accessed to the maximum extent allowed under the current budget and the credit rating agencies would disapprove of any actions to reduce it further. He said instead the BRTF needs to be replenished as this Board has recommended.

Mr. Hintze said the Governor would be addressing implementation of further FY 2001/02 reductions (round two) in a press conference later in the afternoon. He said this will involve additional debt service savings and the use of agency funds including a significant amount from the Petroleum Storage Tank Assurance Fund. However, a large portion of the needed funds still have not been specifically identified, and agencies have been advised to prepare for an additional two percent cut.

Relative to bonding in the upcoming biennium, Mr. Hintze said the state cannot afford and the bond rating agencies would not permit the high levels of new debt issuance that

were authorized in the last two budgets (in excess of \$1 billion each). He said while the fiscal climate must be taken into account, the amount of bonding to be undertaken must also be measured against the needs and opportunities. He noted that the currently very low interest rates can be viewed as one such opportunity. Mr. Hintze said there has always been a recommendation in the budget for bonded indebtedness, and that will be the case again for 2002-04.

Mr. True asked what would happen to already authorized projects, such as the golf courses, that are seeking additional funds. Addressing the golf courses specifically, Mr. Hintze said the funds already available are sufficient to construct the courses; the additional amounts proposed would provide for service facilities and amenities but are not required for the core operations of the courses. Decisions about providing these additional funds in 2002-04 can be made without impacting the current project. Mr. Hintze added that, as is always the case, there are a few projects that have not proceeded and decisions will have to be made for 2002-04 on whether to supplement the funds to provide for a viable project or to re-direct the existing funds elsewhere.

Chairman Clark thanked Mr. Hintze for his presentation, then said the next agenda item was action on the *2002-2008 Statewide Capital Improvements Plan*. He said each recommendation, except the one on projects proposed to be financed from state funds, had received tentative approval at previous meetings. He said this recommendation had not been distributed to members until the October 12 meeting so it would be appropriate to take action on it separately prior to approving the complete plan. Mr. Hintze's motion to approve the recommendation on projects proposed to be financed from state funds was seconded by Judge White, and passed by voice vote.

At Chairman Clark's request, Ms. Ingram briefly reviewed the draft of the complete *2002-2008 Statewide Capital Improvements Plan* as included in the members' folders. She noted that the major change in the format from previous years is the inclusion of a list showing the status of major state-funded construction projects that have been authorized in the last two biennial budgets. Ms. Ingram also referenced three additional pages in the members' folders that provide an overview of all of the agency plans reviewed by the Board. They include pie charts showing the distribution of projects by the proposed source of funds and by the type of project, a summary of the statutory changes that are proposed in the Plan, and a summary of items that need to be considered in developing the instructions and process for the 2004-2010 plans.

Judge White said he would like for the Board to recommend that meaningful alternatives to incarceration be provided and adequately funded. He said the state cannot afford to construct the additional 16,400 prison beds that were projected in 1999 to be needed by 2014. He said the current alternatives are not adequately funded and budget reductions have exacerbated the problem. He said treatment of drug offenses as medical conditions does work and can free up beds for other types of offenders, but not enough programs are available to address the need.

Chairman Clark said he agrees with Judge White, and the Board has made similar policy recommendations in previous plans. He said he is a member of the Judiciary Committee and would like to work with Judge White on a proposal that could be presented to the upcoming General Assembly session.

Ms. Clary made a motion to approve the *2002-2008 Statewide Capital Improvements Plan* for transmittal to the heads of the three branches of government. Mr. Mitchell seconded the motion, and it passed by voice vote.

Chairman Clark thanked the members for their commitment to the work of the Board. He also noted the good working relationship between the Board and the various state agencies and institutions and specifically thanked the state's Chief Information Officer, the Council on Postsecondary Education, and the Commissioner of the Department for Facilities Management who have provided special assistance during the planning process.

Chairman Clark said the just-approved plan reflects the Board's belief that the state must be a good steward of the funds provided by the taxpayers and the assets acquired with those funds. He noted that the most significant policy recommendation in the plan calls for a new program to fund future major capital renewal and maintenance needs of state buildings. He also called attention to recommendations on replenishing the Budget Reserve Trust Fund and on constructing a new state office building in Frankfort. Relative to the project recommendations, Chairman Clark noted that the Board is recommending that the state undertake a very conservative capital construction program in the upcoming biennium and has identified maintenance needs as the highest priority. He said other specific projects that are listed should be considered as high priorities only if funds are available.

Chairman Clark said he would also like to make a few comments about the Board's achievements since its first capital plan was completed in 1991. He specifically noted that the Board's call for the development of a long-range plan for housing state agencies in Frankfort is in the process of being implemented, that the process for planning and constructing court facilities has been improved partly because of the Board's examination of those issues, that the Board was in the forefront relative to calling for establishing and appropriately funding the Budget Reserve Trust Fund, and that the Board has had some success in focusing attention on the importance of adequately maintaining our existing facilities.

Chairman Clark next introduced Glenn Mitchell, Deputy Secretary of the Finance and Administration Cabinet, to make a presentation on the Capitol renovation and restoration project. Mr. Mitchell said this was first discussed in the 1970's and since then some work has been done in a piecemeal fashion (for example, restoration of the dome). He said the one major renovation, which was done in the 1950's, primarily addressed the mechanical systems.

Mr. Mitchell listed several states that are currently undertaking partial or complete renovations of their capitols. He said Utah is probably the most like Kentucky; they are doing a complete restoration of the Capitol as well as constructing two new buildings on the campus.

Mr. Mitchell said based on funding and a directive from the 1998 General Assembly, the Finance and Administration Cabinet hired national consultants with expertise on historic buildings to do a master plan for the Capitol building and campus. Findings reported in the study were that the Capitol is severely overpopulated, that the operational systems are outdated, that it is not ADA accessible, and that historical preservation and restoration are needed.

Mr. Mitchell listed the following recommendations contained in the study: that a new Executive Office Building be constructed, that an addition to the Capitol Annex be constructed, that services and receiving be relocated to behind the Annex (from the west end of the Capitol), that the parking garage be expanded, that the chiller plant be relocated to a less visible location, that additional tunnels be constructed between the buildings, and that the west end of the Capitol become the visitors' entrance and include additional visitor services. While all aspects of the project are intended to address security issues, the implementation of some of these will be moved forward.

Mr. Mitchell noted that the current budget appropriated \$19 million to begin some aspects of the project including design of the Executive Office Building and relocation of the chiller plant.

Mr. Mitchell said approval of the amendment calling for annual legislative sessions had a significant impact on planning for the overall project. Since there are only nine or ten months between sessions now, the work cannot be completed while the General Assembly is away. Three approaches to the project were considered. The first would complete the project in four phases by doing top to bottom renovations in each of four quadrants of the Capitol. This would be possible because the systems in the building run vertically, but it would require occupants to be moved off-site and cause a lot of noise and disruption. The second approach was to construct a legislative chamber above the addition that is already planned for the Capitol Annex and to renovate the Capitol one half at a time, but this approach would also be disruptive. The third approach would construct two legislative chambers in the Capitol Annex addition and relocate both the House and Senate to these chambers temporarily so the entire Capitol renovation could be handled at the same time. Following the renovation, the temporary chambers could be converted for use as large meeting rooms. This is the recommended approach.

Relative to funding for the project, Mr. Mitchell said the approximately \$60 million proposed for 2002-04 is primarily for construction of the new Executive Office Building which will help to depopulate the Capitol. Approximately \$46 million would be needed in 2004-06 to construct the addition to the Annex, to expand the parking garage, and to construct additional tunnels between the various buildings. Funding in 2006-08 (\$54

million) and 2008-10 (\$34 million) would be for renovation of the Capitol. Mr. Mitchell said the goal is to have the project completed by December 2010, which is the 100th anniversary of the original dedication of the Capitol.

Chairman Clark thanked Mr. Mitchell for his presentation. He then expressed his appreciation to the staff for its work during this capital planning process. Mr. Hintze said the Board would like to thank the Chairman for his leadership and to also thank the staff.

Chairman Clark said the Board would not meet again until after the General Assembly Session, but staff will keep members updated on issues of interest.

There being no further business, Mr. Karibo's motion to adjourn the meeting was approved by voice vote. The meeting was adjourned at 11:55 a.m.